



# DSH Payments: Policy Changes and Policy Options

**Medicaid and CHIP Payment and Access Commission**

Robert Nelb

September 13, 2018

[www.macpac.gov](http://www.macpac.gov)

@macpacgov

## Overview

- Background on disproportionate share hospital (DSH) payments
- Recent DSH policy changes
- DSH policy goals
- Policy options
  - Changes to the schedule of allotment reductions
  - Changes to the distribution of allotments among states
  - Policies to promote better targeting of DSH payments within states

September 13, 2018

MACPAC 2

## Background

- Medicaid DSH payments help offset two types of hospital uncompensated care
  - Unpaid costs of care for the uninsured
  - Medicaid shortfall
- States can distribute DSH payments to virtually any hospital in their state, but are required to make DSH payments to deemed DSH hospitals
- State DSH payments are limited by annual federal allotments
  - Allotments vary widely by state based on state DSH spending in 1992
  - The ACA included reductions to DSH allotments under the assumption that uncompensated care would decrease as a result of coverage expansions

September 13, 2018

 MACPAC 3

## DSH Allotment Reductions

- The Bipartisan Budget Act of 2018 delayed DSH allotment reductions until fiscal year (FY) 2020
- The new reduction amounts are:
  - \$4 billion in FY 2020
  - \$8 billion a year in FYs 2021–2025
- The statutory factors used to distribute DSH allotment reductions among states are unchanged
  - CMS will need to finalize a methodology for distributing reductions before they are implemented

September 13, 2018

 MACPAC 4

## Medicaid Shortfall Definition

- In March 2018, federal courts changed the DSH definition of Medicaid shortfall
  - Payments from third-party payers, such as Medicare or commercial insurance, are no longer included
  - The full costs of care for these patients are still included
- As a result, Medicaid shortfall on future DSH audits is expected to more than double in the aggregate
  - The maximum amount of DSH payments that hospitals can receive will increase
  - The ruling could result in a redistribution of DSH funding within states that distribute DSH payments based on the amount of uncompensated care reported on DSH audits

September 13, 2018

 MACPAC 5

## Interest in MACPAC Recommendations

- Congress appears unlikely to further delay DSH allotment reductions
- There is interest in exploring statutory changes to better distribute reductions among states
  - The Commission could also develop a package of recommendations that address other policy goals, such as better targeting of DSH payments within states
- Because allotment reductions will go into effect in FY 2020, it would be useful to make recommendations by the spring of 2019

September 13, 2018

 MACPAC 6

## DSH Policy Goals

- Minimizing disruption for hospitals that currently rely on DSH payments
- Distributing DSH allotments to states based on objective measures of need
- Targeting DSH payments to providers that serve a high share of Medicaid and uninsured patients and have high levels of uncompensated care
- Aligning with policies for other Medicaid payments to hospitals
- Promoting quality and access to care in the most appropriate settings

September 13, 2018

 MACPAC 7

## Potential Measures of Need for DSH Allotments

Measure	Pros	Cons
<b>Number of uninsured individuals</b>	Relates to unpaid costs of care for the uninsured	Larger reductions for states that expanded Medicaid
<b>Number of Medicaid and uninsured individuals</b>	Minimizes differential effects for states that expanded Medicaid	Medicaid enrollment is not a good measure of Medicaid shortfall
<b>Level of uncompensated care for all hospitals in the state (S-10)</b>	Includes all hospitals in the state; 2 year data lag	Medicare cost reports do not align with DSH definitions
<b>Level of uncompensated care for deemed DSH hospitals (DSH audit)</b>	DSH audits align with DSH definitions	A subset of DSH hospitals; 4 year data lag

**Notes:** DSH is disproportionate share hospital. S-10 is worksheet on Medicare cost reports used to collect hospital uncompensated care data. DSH audits are annual reports of uncompensated care for DSH hospitals that are used to ensure that DSH payments do not exceed hospitals' Medicaid shortfall and unpaid costs of care for the uninsured.

September 13, 2018

 MACPAC 8

# Policy Options

September 13, 2018

 MACPAC 9

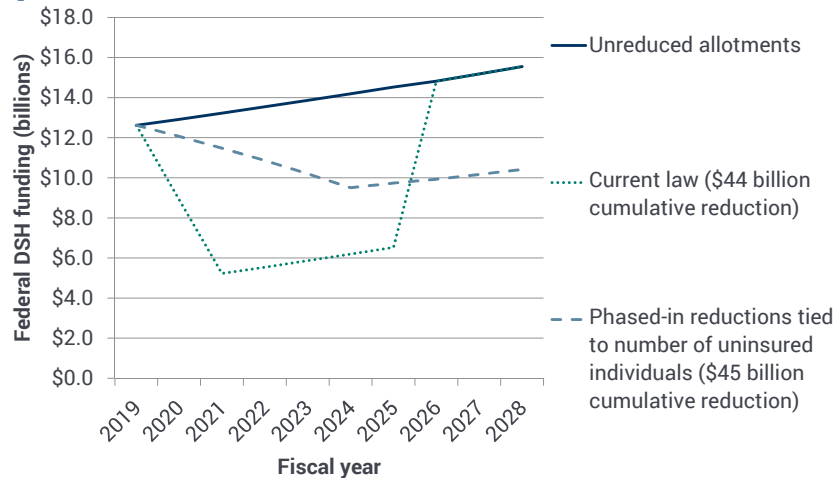
## Changing the Schedule of Allotment Reductions

- Distribute the same amount of reductions over a longer time frame
  - By extending reductions beyond FY 2025, Congress could achieve savings that could be used to phase-in reductions more gradually in early years
- Tie future DSH funding to objective measures of need
  - This option would not change the total amount of reductions projected, but it would allow for automatic adjustments if there are future, unexpected changes

September 13, 2018

 MACPAC 10

## Federal DSH Funding Under Various Policy Options, FYs 2019–2028



**Notes:** DSH is disproportionate share hospital. FY is fiscal year.

**Source:** MACPAC, 2018, analysis of the Congressional Budget Office (CBO), 2017, The Budget and Economic Outlook: 2017 to 2027, the U.S. Census Bureau 2016 American Community Survey, and the CMS Medicaid Budget Expenditure System.

September 13, 2018

MACPAC 11

## Changing the Distribution of Allotments Among States

- Apply DSH reductions to unspent DSH funding first
- Change the DSH allotment reduction formula
  - Modify the targeting factors in the DSH allotment reduction formula
  - Base DSH allotment reductions on the uninsured percentage factor alone
- Rebase state DSH allotments based on objective measures of need
  - Lower allotments for states above a target amount
  - Increase allotments for states below a target amount

September 13, 2018

MACPAC 12

## Promoting Better Targeting of DSH Payments Within States

- MACPAC previously examined policies to improve targeting by raising the minimum eligibility criteria for DSH payments
- Another approach is to change the amount of DSH funds a hospital is eligible to receive by changing the DSH definition of uncompensated care
  - Revising the definition of Medicaid shortfall to account for third-party payments
  - Eliminating DSH payments for Medicaid shortfall
  - Including costs of care outside the hospital setting

September 13, 2018

 MACPAC 13

## California Global Payment Program (GPP)

- CMS could provide enhanced technical assistance to encourage states to test Section 1115 demonstrations similar to the GPP
  - Targets DSH payments to unpaid costs of care for the uninsured for certain deemed DSH hospitals
  - DSH payments are distributed as a global payment to incentivize reduced avoidable hospital use
  - Hospitals can use GPP funds to pay for nonhospital community-based services that DSH does not pay for
- Interim evaluation results are promising

September 13, 2018

 MACPAC 14

## Next Steps

- Commission feedback will help staff further develop and analyze policy options
  - Which policy options are Commissioners most interested in developing further?
  - Are there other policy options we should consider?
  - What additional information would help inform decision making?
- Goal of voting on specific recommendations no later than the January meeting

September 13, 2018

 MACPAC 15



## DSH Payments: Policy Changes and Policy Options

---

**Medicaid and CHIP Payment and Access Commission**

Robert Nelb

September 13, 2018

[www.macpac.gov](http://www.macpac.gov)

 [@macpacgov](https://twitter.com/macpacgov)